Hedge funds raised bullish commodity bets to a 15-week high after a drought in Brazil threatened crops from coffee to soybeans.

The net-long position across 18 U.S.-traded commodities climbed 15 percent to 900,330 futures and options in the week ended Feb. 4, the biggest gain since August, U.S. Commodity Futures Trading Commission data show. Investors turned bullish on arabica coffee for the first time since July 2012 and soybean wagers rose by the most in almost three months. Brazil is the biggest exporter of both crops.

The Standard & Poor’s GSCI Agriculture Index of eight commodities rose 3.3 percent last week, reaching an eight-week high Feb. 6. In Brazil, also the top sugar grower, the driest January since 1954 drained dams and scorched plants. Extreme global weather also is threatening other crops with too much rain hampering Indonesia’s cocoa harvest and freezing temperatures damaging U.S. wheat.

“Agriculture is probably the best hope for a decent commodity run this year,” said Peter Sorrentino, who helps manage $4.4 billion at Huntington Asset Advisors in Cincinnati. “These weather issues will definitely have a decided positive influence on prices.”

The S&P GSCI Spot Index of 24 raw materials gained 2.1 percent last week. The MSCI All-Country World index of equities rose 0.8 percent, while the Bloomberg Treasury Bond Index slid 0.1 percent. The Bloomberg Dollar Spot Index, a gauge against 10 major trading partners, dropped 0.8 percent.

Coffee Bulls

Money managers held a coffee net-bullish position of 7,981 contracts on Feb. 4, the
CFTC data show. That’s the first bet on a rally since July 2012. Prices for arabica, the variety favored by Starbucks Corp., surged 23 percent since Dec. 31, the best start to a year since 1997.

Plantations in Brazil are enduring dry weather just when rain is needed the most for tree roots to absorb nutrients as the beans begin to grow inside the coffee cherries. Rain may be “too late” and there isn’t enough time to reverse the damage to trees and beans, Terra Forte, a Sao Joao da Boa Vista-based shipper, said in a report.

Hot, dry weather cut potential soybean yields in as much as 40 percent of Brazil’s growing areas, Commodity Weather Group LLC in Bethesda, Maryland, said in a report Feb. 7. In Kansas, the top winter-wheat-growing state, 35 percent of the crop was in good or excellent condition, down from 58 percent on Dec. 30 after sub-zero temperatures swept the nation, the government said Feb. 3. The Indonesian Cocoa Association sees the nation’s crop dropping to the lowest in a decade as rains in the third-biggest grower hurt flowering and delay the harvest.

**Goldman, Citi**

Raw materials from copper and corn to sugar and coffee will be have supply surpluses this year after a decade-long bull market spurred producers to build new mines, drill more wells and expand planting of crops. Banks led by Goldman Sachs Group Inc. and Citigroup Inc. say commodities are heading for losses in 2014. The S&P GSCI Agriculture Index tumbled 22 percent last year, the most since 1981, after U.S. crops recovered from the worst drought since the 1930s.

Inventories of soybeans around the world will equal 26.7 percent of consumption this season, up from 23.5 percent a year earlier, the U.S. Department of Agriculture said Jan. 10. Corn stockpiles will equal 17.1 percent of use, compared with 15.4 percent a year earlier. Global coffee production is set to exceed demand for a fourth season, pushing stockpiles to a five-year high, according to the USDA.

**Supply ‘Buffer’**

“We’re not in a precarious situation for crop supplies like we were a year ago,” Kelly Wiesbrock, a managing director at Harvest Capital Strategies in San...
Francisco, which oversees $1.8 billion. “We do have a buffer today in the event that we have below-trend yields this year. It’s unlikely we see drastic price reaction.”

World food prices fell in January to a 19-month low, the United Nations’ Food & Agriculture Organization said Feb. 6. The Rome-based group’s index of 55 food items is 4.5 percent lower than a year ago.

The S&P GSCI Enhanced Commodity Index, Goldman’s preferred measure, will drop 3 percent in the next 12 months, the bank said in a Jan. 12 report. Precious metals will lead losses with a 15 percent drop, while agriculture will decline 11 percent.

Money managers increased their net-bullish soybean holdings by 20 percent to 146,533 contracts, the highest this year. Prices gained 3.8 percent last week, the most since August. Cocoa wagers gained 7.2 percent to 83,038, a second straight increase. Investors held a net-short position of 52,963 in wheat, compared with 62,501 a week earlier.

**Gold Wagers**

Wagers on a gold rally slid 2.1 percent to 59,408 contracts, the first decline this year, the CFTC data show. Federal Reserve officials said Jan. 29 they would trim monthly purchases of bonds to $65 billion from $75 billion, after a $10 billion cut announced in December. Bullion rose 70 percent from December 2008 to June 2011 as the Fed pumped more than $2 trillion into the financial system.

Gold rebounded 5.6 percent this year after a 28 percent decline in 2013 that was the biggest since 1981. About $1.6 trillion was erased from the value of global equities in 2014 amid signs of slow economic growth in China and a slump in emerging-market currencies. Sales of gold coins by the U.S. Mint rose 63 percent in January to the highest since April, while silver purchases almost tripled.

**Copper Inventories**

Investors became bearish on copper before prices capped the biggest rally this year. Funds are holding a net-short position of 6,832 contracts, compared with a net-long of 11,735 a week earlier. Futures in New York rose 1.2 percent last week, the most since Dec. 27. Inventories at warehouses monitored by the London Metal...
Exchange declined 16 percent this year to the lowest since December 2012.

“Commodities, especially base metals, might be getting to close to a point where investors have discounted something close to a worst-case scenario,” Sameer Samana, a senior international strategist at Wells Fargo Advisors LLC, which oversees about $1.4 trillion. “There will be pockets of strength. The issue in Brazil could be a catalyst.”

To contact the reporter on this story: Luzi Ann Javier in New York at ljavier@bloomberg.net

To contact the editor responsible for this story: Millie Munshi at mmunshi@bloomberg.net